



Request for City Council Committee Action from the Department of Finance

Date: April 23, 2012

To: Honorable Betsy Hodges, Chair, Ways & Means Committee

Referral to: City Council

Subject: Changing the City's deferred compensation plan options from three options to one option.

Recommendation: That the City Council approve by resolution the elimination of the ING and ICMA deferred compensation plan options, the transfer of the assets of all participants in the ING and ICMA plan options into the Minnesota Deferred Compensation Plan option, and the authorization of the proper City officials to execute documents necessary to terminate the ING and ICMA contracts.

Previous Directives: None

Department Information

Prepared by: LeaAnn Stagg, Director of Treasury

Approved by: Kevin Carpenter, City Finance Officer

Jayne Baccus Khalifa, Interim City Coordinator

Presenters in Committee: LeaAnn Stagg, Treasury, Joyce Traver, Human Resources, and Susan Trammell, City Attorney's Office

Reviews

- Permanent Review Committee (PRC): N/A
- Civil Rights Approval N/A
- Policy Review Group (PRG): N/A

Financial Impact

- No financial impact

Community Impact

- N/A

Supporting Information

The City's deferred compensation plan provides employees an income deferral/ tax benefit. As of December 31, 2011, there were 2,083 current employees with about \$218 million in assets participating in the City's deferred compensation plan options. The City's current plan offers participants the choice of three separate providers – the State of Minnesota, ING and ICMA.

In 2011, staff from Finance, Human Resources and City Attorney jointly reviewed the City's deferred compensation plan to determine if the structure was still appropriate.

The review found that the purchasing power of the Minnesota State plan provides a lower fee structure for its standard investment options as compared to both ING and ICMA options. Lower fees enhance net returns, and over time provide improved retirement savings accumulation.

In addition, the review found a very large number of "standard" investment options at both ING and ICMA (44+ options each) compared to options at the State of Minnesota (11 standard funds options.) Investment research has found that too many standard investment options can confuse participants and lead to inappropriate asset allocations.

Also, the review found substantial resources would be required for the City to provide Plan administration, investment and investment manager oversight of the ICMA and ING deferred compensation plan options in accordance with recommended industry best practices.

Recommendation for City's Deferred Compensation Plan Providers

Because of the lower investment fee structure of the Minnesota Deferred Compensation Plan standard investment options, and the substantial resources necessary to provide plan administration, investment and investment manager oversight in house, the Finance, HR and City Attorney departments are recommending that the City terminate the ING and ICMA plans options as of September 3, 2012, or as soon thereafter as is administratively reasonable and practicable, and offer only the State of Minnesota plan to all participants.

Participant Communications and Transition Plan

Participant communications surrounding the change will begin mid-May. Participant seminars, a key part of the transition plan, will be held at various City locations and dates during the summer. Staff from the State of Minnesota will assist City staff in this transition.

RESOLUTION 2012 –
By Hodges

WHEREAS, the City Council of the City of Minneapolis, on June 7, 1973, adopted by resolution “The City of Minneapolis Deferred Compensation Plan” (the “Plan”) for officers and employees of the City and authorized and directed the proper City officers to contract with Aetna Variable Annuity Life Insurance Company for the purchase of Aetna annuity contracts as the funding vehicle for the Plan; and

WHEREAS, Aetna Financial Services and Aetna International merged with and became Ing Groep N.V. (“ING”). ING continues to provide the deferred compensation services and products originally provided by Aetna; and

WHEREAS, Minnesota Statutes, section 352.695 requires any municipality offering deferred compensation plans to their employees to also offer the Minnesota Deferred Compensation Plan; and

WHEREAS, the City Council of the City of Minneapolis, on November 6, 1975, adopted and approved by resolution “The State of Minnesota, City of Minneapolis Deferred Compensation Plan” for officers and employees of the City; and

WHEREAS, the City Council of the City of Minneapolis, on March 10, 1978, established by Resolution 78R-080 an arrangement with the International City Management Association Retirement Corporation (“ICMA”) for certain officers and employees of the City to provide services and products to the Plan and authorized execution appropriate documents and joinder agreements. Participation in the ICMA Plan option was extended by City Council action of April 14, 1995 to all city employees; and

WHEREAS, as of December 31, 2011, there were 2,083 current employees with about \$218 million in assets participating in the City’s deferred compensation Plan options; and

WHEREAS, Minnesota Statutes, section 352.695 establishes the board of directors of the Minnesota State Retirement System as the plan trustee and plan sponsor, the board's executive director as the plan administrator of the Minnesota Deferred Compensation Plan, and delegates the investment and investment manager oversight of said plan to the State Board of Investment; and

WHEREAS, the City is the Plan sponsor and is responsible for plan administration, investment and investment manager oversight of the ICMA and ING deferred compensation Plan options; and

WHEREAS, the Economic Growth and Tax Relief Reconciliation Act of 2001 and related IRS guidance impacted all governmental deferred compensation plans and City Plan changed to comply with the regulations; and

WHEREAS, in 2011, staff from Finance, Human Resources and City Attorney jointly reviewed the City’s deferred compensation Plan options to determine if the three plan option structure was still appropriate; and

WHEREAS, the City Council finds it to be in the best interests of the City and the City’s employees for the City to maintain only the Minnesota Deferred Compensation Plan in order to provide employees with a

deferred compensation plan having a low investment fee structure, an appropriate number of standard fund options, as well as professional investment and investment manager oversight.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the City terminate the ING and ICMA Plan options as of September 3, 2012, or as soon thereafter as is administratively reasonable and practicable, and thereafter offer only the Minnesota Deferred Compensation Plan to all participants and eligible employees of the City.

BE IT FURTHER RESOLVED:

That as of the date of the termination of the ING and ICMA Plan options, the Plan shall be frozen and assets transferred to the Minnesota Deferred Compensation Plan.

BE IT FURTHER RESOLVED:

That following the transfer of all Plan assets to the Minnesota Deferred Compensation Plan, the City of Minneapolis Deferred Compensation Plan be and hereby is terminated.

BE IT FURTHER RESOLVED:

That the proper City officers be and they are hereby authorized to and directed to negotiate the terms and conditions of the transfer of Plan assets from ING and ICMA to the custody and control of the Minnesota Deferred Compensation Plan and its administrators and managers and, similarly, to negotiate appropriate arrangements with the Minnesota Deferred Compensation Plan to accept such transferred assets; provided, however, that such transfer of assets shall in all cases comply with the requirements of the Internal Revenue Code and the rules and regulations thereunder so as to preserve the tax benefits applicable to the Plan.

BE IT FURTHER RESOLVED:

That the Plan be amended in such manner as is necessary or appropriate to permit the transfer of plan assets to the Minnesota Deferred Compensation Plan, to terminate the Minneapolis Deferred Compensation Plan and to document and permit such other actions necessary to implement the foregoing Resolutions, any such amendment to be executed by the proposer City Officials.

BE IT FURTHER RESOLVED:

That the proper City officers be and they are hereby authorized to and directed to execute all documents necessary to terminate contracts with ING and ICMA and such other documents as may be necessary to implement the foregoing Resolutions.

City Council to consider change to deferred compensation plan

The City of Minneapolis currently offers three options for City employees to enroll in a deferred compensation plan: ING, ICMA and the Minnesota Deferred Compensation Plan. At its May 7 meeting, the City Council's Ways and Means Committee will hear a proposal to transfer employees' deferred compensation plan investments that are currently with ING and ICMA to the Minnesota Deferred Compensation Plan, which is a state-managed plan.

The state plan has been in existence for more than 35 years, has more than \$4 billion in assets and serves more than 600 of Minnesota's public employers. The Minnesota Deferred Compensation Plan offers 11 standard investment options and a brokerage window offering participants access to more than 13,000 different mutual funds. In addition, the Minnesota Deferred Compensation Plan provides a lower fee structure for its standard investment options as compared to both ING and ICMA.. Lower fees mean more money in participants' accounts working for them over time.

If the proposal is approved by the full City Council at its May 11 meeting, employees with ICMA and ING accounts will have their accounts transferred to Minnesota Deferred Compensation Plan in the fall. Information will be mailed to participants' homes during the week of May 21st. This summer, the City will schedule seminars to help ICMA and ING participants understand the transfer process and the benefits of moving investment funds to the Minnesota Deferred Compensation Plan.